

EP/EO:T

JUL 08 1998

## CERTIFIED MAIL

Dear Applicant:

We have considered your application for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code and have determined that you do not qualify for the exemption under this section. Our reasons for this determination and the facts which this conclusion is based on are explained below.

You were incorporated under the laws of the State of [REDACTED] on [REDACTED]. Your stated purposes are "to promote economic development through the provision of marketing and business services to artists, designers, craftsmen, manufacturers and others who design, manufacture or are otherwise involved with consumer products."

Your Articles were restated on [REDACTED] to modify the type, purposes and powers of the corporation. Your purposes are "to promote the common business interests and enforce the legal rights shared by its members as a business league or trade association within the meaning of Section 501(c)(6) of the Internal Revenue Code of 1986, as amended (the "Code") (or the corresponding provision of any future United States internal revenue law), including more specifically, but not by way of limitation to assist artists, designers and craftsmen in accessing national wholesale markets for their products; to provide management, technical assistance and related administrative services; and to improve the overall economic position of these individuals, their business and employees, and the communities in which they reside."

[REDACTED], your President provides 100% of the services to members. He works out of the office that he leases to your organization.

You are a membership organization. Members pay fees for the services your organization provides. Fees consist of 1) show fees (determined based upon the cost to [REDACTED] of exhibiting at a particular wholesale show, i.e. booth space, transportation and travel expenses); 2) commissions on the value of the sales which are created by your organization.

Your services to members include: marketing, direct mail services, telemarketing and customer service, electronic marketing on the Internet, order processing and credit checking, invoicing and collection, designer/producer collaboration, and market research.

Code	Initiator 507204	Reviewer 507204	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname	[REDACTED]						
Date	7/2/98						

Membership fees are \$[redacted] for six months (includes 20 product images and an artist page on web site); order processing: a percent of the value of the orders processed starting at 5% and decreasing to 2%, depending on cumulative annual dollar total, photography: \$[redacted] per photo session for setup, and \$[redacted] per photo (plus the cost of shipping your work to and from your studio).

Your income is derived from: show fees, commissions, [redacted] Development grant, web site fees and photography fees.

Your expenses are attributable to activities related to your purposes, compensation of officers, depreciation and depletion of assets, interest, and occupancy.

Your financial data also reflects two notes payable to your President with balances of [redacted] and [redacted].

Section 501(c)(6) of the Internal Revenue Code provides for exemption of business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues, which are not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations states that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individuals.

Revenue Ruling 56-65, published in Cumulative Bulletin 1956-1, on page 194, held that a local organization whose principal activity consisted of furnishing particular information and specialized individual service to its individual members engaged in a particular industry through publications and other means to effect economics in the operation of their individual businesses was performing particular services for individual persons. Such organization did not qualify for exemption under 501(c)(6) of the Internal Revenue Code as a business league even though it performed functions which were of benefit to the particular industry and the public generally.

Revenue Ruling 58-224, published in Cumulative Bulletin 1958-1 on page 242, held that an organization which operates a trade show as its sole or principal activity is organized primarily for the purpose of rendering particular services to individuals and is not entitled to exemption from Federal income tax as an organization described as a business league in section 501(c)(6).

[REDACTED]

From the information submitted and which has been cited in this letter, your organization is similar to the two organizations shown above. Sixty percent of your activities are the provision of specialized business services to your members ("Linking technology with professional business practices, [REDACTED] combines the advantages of scale enjoyed by large companies, reducing costs and increasing market presence, with the creativity and flexibility of independent artists [brochure entitled [REDACTED]). The remaining forty percent of your activities are the direct marketing of member products at wholesale trade shows and through the Internet Web Site maintained by your organization for this purpose. Your activities are not directed to the improvement of one or more lines of business but rather to the promotion of the private interest of its members.

Therefore, we have concluded that you do not qualify for exemption from Federal income tax as an organization described in section 501(c)(6) of the Code. In accordance with this determination, you are required to file Federal income tax returns on Form 1120.

If you do not agree with our determination, you may request consideration of this matter by the Office of Regional Director of Appeals. To do this you should file a written appeal as explained in the enclosed Publication 892. Your appeal should give the facts, law, and any other information to support your position. If you want a hearing, please request it when you file your appeal and you will be contacted to arrange a date. The hearing may be held at the regional office, or, if you request, at any mutually convenient district office. If you will be represented by someone who is not one of your principal officers, that person will need to file a power of attorney or tax authorization with us.

If you don't appeal this determination within 30 days from the date of this letter, as explained in Publication 892, this letter will become our final determination on this matter.

Appeals submitted which do not contain all the documentation required by Publication 892 will be returned for completion.

We have sent a copy of this letter to your representative as indicated in your power of attorney.

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[REDACTED]

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

[REDACTED]  
District Director  
Southeast Key District

Enclosure: Publication 892

cc: [REDACTED]